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**E.ON Position on
Consultative Communication of the Commission**

**"The 2015 International Climate Change Agreement:
Shaping international climate policy beyond 2020"**

dated 26 March 2013

Düsseldorf, 6. June 2013



1 General Remarks

The 2015 International Climate Change Agreement has to be the nucleus of a global greenhouse gas reduction effort to deal with climate change. Although it is very difficult to shape the details of that agreement now its instruments should be market oriented where appropriate. Here the European Union has to show that a market oriented system like the emission trading system is delivering political set reduction targets in an efficient manner without jeopardizing its economic development by causing carbon and job leakage for companies acting in an international competitive environment.

2 Specific Remarks

E.ON appreciates the possibility to contribute to the further discussion for the agreement by answering the Commissions questions.

Question 1:

How can the 2015 Agreement be designed to ensure that countries can pursue sustainable economic development while encouraging them to do their equitable and fair share in reducing global GHG emissions so that global emissions are put on a pathway that allows us to meet the below 2°C objective? How can we avoid a repeat of the current situation where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2° C.

E.ON Response:

International climate efforts always incorporate the problem of free-rider behavior since some countries see it in their interest to contribute less relative to other countries in order to keep or improve their own economic competitive position. Since climate change will impact all countries in a different manner a global, uniform approach may be not successful even if all countries commit themselves to the overall target to limit the effects of climate change to 2°C.

Therefore it is important to coordinate discussions in the different fora (UNFCCC, G20 and the Major Emitters Forum) in order to ensure that the top twenty emitting nations undertake meaningful reductions which can be monitored, reported and verified. This will reduce the complexity of the negotiation process enabling faster agreement. These countries represent in total almost 80 % of actual and in 2020 expected GHG emissions, as stated by the Commission.

Question 2:

How can the 2015 Agreement best ensure the contribution of all major economies and sectors and minimize the potential risk of carbon leakage between highly competitive economies?

E.ON Response:

The discussion on carbon leakage is essential for the success of any international discussion on a climate agreement. Many countries believe that climate protection policies would hamper their economic development and that developed countries push for these policies to protect their own industries from international competition.

Therefore the EU has to demonstrate that its climate protection policy will not be a burden on economic development. Other countries outside the EU are scrutinizing EU discussions on the further development of the EU emission trading system. In the coming debate on structural reforms of the ETS the carbon leakage problem must be addressed in a way that installations in an international competitive environment will not have any additional constraints on global competitiveness under the ETS. Any discussions on carbon leakage must be based on sound empirical evidence and not on sectoral pleas for hidden subsidies. The Commission should initiate research to evaluate the true extent of the potential for carbon leakage under different scenarios.

Question 3:

How can the 2015 Agreement most effectively encourage the mainstreaming of climate change in all relevant policy areas? How can it encourage complementary processes and initiatives, including those carried out by non-state actors?

E.ON Response:

The mainstreaming of climate change policies in other policy areas is a very challenging issue since the development of a consistent climate change policy by itself is very difficult as can be seen by the long history of climate change negotiations without any substantial results. Therefore it could be useful to concentrate just on market-oriented instruments that could, where appropriate, be incorporated to provide cost-effective incentives. Here again the EU has to re-establish the effectiveness of its ETS as a cost effective instrument.

Question 4:

What criteria and principles should guide the determination of an equitable distribution of mitigation commitments of Parties to the 2015 Agreement along a spectrum of commitments that reflect national circumstances, are widely perceived as equitable and fair and that are collectively sufficient avoiding any shortfall in ambition? How can the 2015 Agreement capture particular opportunities with respect to specific sectors?

E.ON Response:

The internationally accepted formula of "common but differentiated responsibilities" needs to be re-interpreted in the light of the Durban Agreement. Furthermore with respect to the carbon leakage discussion regional or even global sectoral approaches might be discussed for incorporation in an international agreement. So, for example, industry-wide benchmarks might be worth discussing so that all major markets are covered.

Question 5:

What should be the role of the 2015 Agreement in addressing the adaptation challenge and how should this build on ongoing work under the Convention? How can the 2015 Agreement further incentivize the mainstreaming of adaptation into all relevant policy areas?

E.ON Response:

Investments in adaptation have the big advantage that there is a close link between local investments and local benefits in comparison to investment in mitigation where any benefit is distributed on a global level. A simple example is the building of higher dykes to prevent flooding risks from climate change. Therefore, the ongoing discussion about financing the green climate funds with 100 bn USD yearly from 2020 onwards has to be resolved. Approaches such as the issue of cost and damage should be avoided as there is no causal link between any country's or any company's GHG emissions and climate impacts. Since whole regions may benefit from investments in adaptation, we have a public good that should be financed by the international community. Market-based instruments such as auctions could be used to invest scarce financial funds in cost-effective manner in politically defined projects.

Question 6:

What should be the future role of the Convention and specifically the 2015 Agreement in the decade up to 2030 with respect to finance, market-based mechanisms and technology? How can existing experience be built upon and frameworks further improved?

E.ON Response:

There should preferably be a global market-based regime to deal with climate change but since this global regime might take a long time to achieve we should focus, in the shorter-term, on linking regional systems in a sustainable way. As in foreign exchange policy we need reliable instruments that convert national or regional emission rights into the different systems. The linking of the EU ETS to the Australian system could be seen a first attempt to establish such a framework.

Question 7:

How could the 2015 Agreement further improve transparency and accountability of countries internationally? To what extent will an accounting system have to be standardised globally? How should countries be held accountable when they fail to meet their commitments?

E.ON Response:

Without reliable accounting systems there can be no confidence in any system. UNFCCC developed a good basis but the integrity of a multinational climate regime is laid on a reliable monitoring, reporting and verification system. Therefore strict rules on all participants on a regional or global level on implementing these systems should be combined by the participation in linking projects or the participation in the funding of adaptation projects.

Question 8:

How could the UN climate negotiating process be improved to better support reaching an inclusive, ambitious, effective and fair 2015 Agreement and ensuring its implementation?

E.ON Response:

We have to decide whether we should follow further the road of an UN process which, since the decision on the Convention in 1992, has resulted in more and bigger conferences with fewer results or if major emitters, working within the UNFCCC framework, should go ahead with agreeing on ambitious standards. From a political point of view a full UN process would be worthwhile; from a practical point of view a smaller group might make it easier to come to conclusions and the process might be leaner. Here again the carbon leakage problem has to be addressed prominently.

Question 9:

How can the EU best invest in and support processes and initiatives outside the Convention to pave the way for an ambitious and effective 2015 agreement?

The best way for the EU to demonstrate leadership is to show an economic friendly climate change policy in practice. Here the EU already has the necessary instrument – the ETS – and an ambitious target – reduction of GHG by 80 – 95 % by 2050. But currently the EU has failed to align the ETS to its long-term 2050 target.

The EU might best invest in a 2015 agreement by reforming the ETS as the leading market-based instrument to achieve a politically set reduction target in a cost-effective manner. Here the reduction of the current surplus of allowances is a first necessary step. The next step should be to set an ambitious binding 2030 reduction target in a transparent cap-setting process. Here the EU has to take account of the impact on international acting companies by preventing any real carbon leakage.